the GIBSON-HOMANS company

SINCE gh 1913

1981 Annual Report

GROWTH MARKETS/THE DO-IT-YOURSELF ERA

Home alteration and repair products will be the fastest growing segment of the do-it-yourself market according to Predicasts, Inc., a business information and market research firm. It expects retail spending for these products to increase 450% to $44 billion by 1995 for an annual growth rate of nearly 11%. In 1981, the do-it-yourself and handyman market accounted for 75% of Gibson-Homans' sales.

This report and other market studies cite several factors for their optimistic projections. The growth in the number of U. S. households is increasing at a rate of three times the population rate. The number of adults in the 25 to 44 age bracket, the principal household formation years, will increase to represent about 32% of the population in 1990 compared with 28% of the 1979 population. There are also a growing number of single person households as young adults are choosing to establish households before marriage. The high divorce rate is also contributing to the increasing number of single person households.

Each of these households requires a dwelling. To Gibson-Homans, each dwelling represents a building that needs or will need repair, or may undergo remodeling or redecorating.

Americans are do-it-yourselfers in overwhelming numbers by choice or necessity. Nearly 85% of all single family households have at least one do-it-yourself resident. Factors supporting this trend include the rising cost of professional labor and the increasing availability of easy-to-use materials. Also, high interest rates and rising construction costs are making new home purchase increasingly difficult, leading many people to expand, remodel or preserve their present homes. As leisure time and disposable incomes increase, many people choose do-it-yourself work as a hobby.

Gibson-Homans products are sold throughout the nation in stores such as K-Mart, Wickes, 84 Lumber, Scotty's, Payless Cashways, Grossman's, Walmart, Handy Dandy, Handy City, Orchard, Ace and True Value.

The industrial-commercial building maintenance market accounted for approximately 21% of 1981 sales. Gibson-Homans sells products, under private label, to distributors who specialize in providing maintenance products and systems to owners of industrial and commercial buildings. As construction costs continue to climb, owners of business, industrial and institutional buildings spend more and more to protect and enhance their capital investments through maintenance procedures which require the types of products Gibson-Homans produces. The long term outlook for this market continues to be favorable.

It is estimated that only about 4% of Gibson-Homans 1981 product sales were used in the construction of new buildings. The future growth of the Company, therefore, is not dependent upon a pick-up in the new construction market.


TUB & TILE
CALK
LATEX


HANDI-GARD
FIBERED EMULSION
ROOF COATING
Best Buy
qh
DO NOT APPLY WHEN RAIN IS IMMINENT
ECONOMICAL - BEST COVERAGE PER DOLLAR SPENT
SMOOTH EMULSION BASE FOR EASY APPLICATION
FORMS RUBBERY SEAMLESS COATING
FIBERS ADDED FOR EXTRA STRENGTH
WILL NOT BREAK, BLISTER OR SAG
NET CONTENTS: FIVE GALLONS
BLACK JACK
WET SEAL
ROOF CEMENT
ROOF CEMENT

Meeting the Competition

Gibson-Homans has the ability to adapt to changing market conditions and competitive situations. In order to maintain sales in 1981, competitors cut prices to levels that generated little or no profit. Gibson-Homans maintained its profit level and continued its research and product development, new plant and equipment additions and innovative marketing approaches.

Emulsion Products

In roof coatings, the Company is introducing its new line of asphalt emulsion products to the do-it-yourself market. These are water based coatings that are attractively packaged and priced to compete on a profitable basis with low quality asphalt solvent cut-back coatings. Early response in 1982 indicates good acceptance among Gibson-Homans' customers.

The same emulsion technology has led to a new line of driveway repair products that is being introduced in the Spring. These products are priced to profitably compete with low quality tar based products.

In the case of both roof coatings and driveway repair products, Gibson-Homans emulsion technology enables retailers to offer their customers attractively packaged products with uniformly high quality at prices similar to poorly packaged products of inconsistent quality.

Spackling

A new light-weight spackling compound has just been introduced to the market. The product has easy working properties heretofore unavailable, does not shrink upon drying, and does not require sanding. The spackling is used for patching plaster, wallboard and wood surfaces. The initial reception among Gibson-Homans' customers has been very enthusiastic.

G-H "Answer Book"

The do-it-yourselfer often is faced with a wide array of competing products and little help or advice on how to solve his maintenance problems. To help him or her select the correct product and repair procedure, Gibson-Homans has developed the "Answer Book." The book features "how-to" advice for repairing dozens of household problems ranging from repairing a leaking roof, patching a driveway, to hanging wall coverings. The book also advises which of Gibson-Homans coatings, sealants or adhesives to use in each situation.

The book complements the functional product packaging which includes "how-to" illustrations and easy to follow instructions for using the products. The "Answer Book" is being introduced to retailers this year following successful test marketing in 1981.

Wallcovering Adhesives Expansion

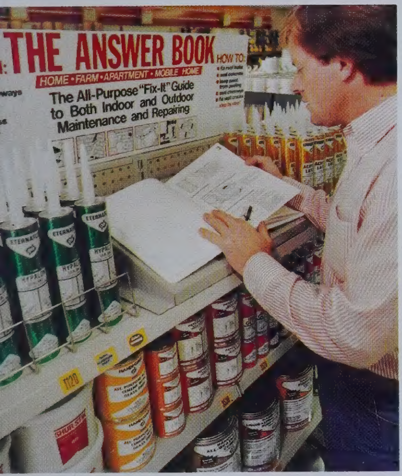
Growing acceptance of the Shur-Stik adhesives line across the country and in Canada resulted in a 21% gain in wallcovering adhesives sales in 1981. The use of wallcoverings in residential and commercial buildings is increasing.

The Shur-Stik adhesives line has strong acceptance among the professional tradesmen because of its uniform high quality. Do-it-yourselfers are responding to the convenient, attractive packaging and to the convenience of using a pre-mixed adhesive which eliminates the guess work associated with dry adhesives which must be mixed with water at home.

Bogert Acquisition Broadens Product Line

Gibson-Homans conducts an on-going effort to find suitable acquisitions to expand the Company's base. At the close of 1981, Gibson-Homans acquired the A. Z. Bogert Co., Inc., a privately owned, regional mastic adhesives manufacturer located in Baltimore, Maryland. Bogert markets its products principally in the Middle Atlantic states and has annual sales of approximately $7.5 million.

Bogert's adhesives are used for installing flooring materials, wall paneling as well as wall and ceiling tiles. This line of adhesives significantly broadens Gibson-Homans' products for the do-it-yourself market. These products will be introduced into the Company's existing channels of distribution by the middle of the year.


THE ANSWER BOOK
HOME • FARM • APARTMENT • MOBILE HOME
The All-Purpose "Fix-It" Guide to Both Indoor and Outdoor Maintenance and Repairing


SHUR-STIK
Wallcovering Undercoat
SHUR-STIK
vinyl wallcovering adhesive
88
128 oz. (1 U.S. gal.)
3.785 litres
LIGHTWEIGHT SPACKLING
NET CONTENTS: 1 QUART

Liquidity and Capital Resources

The Company is dependent upon earnings and long term debt financings to furnish adequate working capital and growth capital. Funds from operations provided $2.6 million in 1981, $2.4 million in 1980, and $2.1 million in 1979.

These funds were used to provide working capital and finance normal capital expenditures. The purchase price of the A. Z. Bogert Co., Inc. included the issuance of $1,047,901 in installment notes. The Company anticipates that adequate cash will be available for payment of these installment notes from the operations of the Company.

During the year ended December 31, 1981, total assets increased by $3,531,000, or 18%, and shareholders' equity increased $1,799,000, or 25%. Expenditures for property, plant and equipment were $2,307,000, including $1,180,000 acquired in the acquisition of the A. Z. Bogert Co., Inc.

A bank credit line in excess of $2,000,000 is currently available to the Company. While it was not necessary to utilize this credit line in 1981, seasonal fluctuation and working capital requirements could require its use in future years. Long term financing is negotiated, as necessary, to meet major building programs.

Inflation and Changes in Prices

The Company's business is not generally governed by contracts that establish fixed prices. Historically, as vendors have increased their prices for goods and services supplied to the Company, it has been possible for the Company to increase prices to its customers by an amount sufficient to maintain gross margins at an adequate level that has not varied greatly over the years.

Results of Operations
1981 versus 1980

Sales in 1981 increased $1,269,000, or 2.3%, over 1980 sales. Price increases accounted for the entire sales increase.

Cost of sales in 1981 decreased to 72.7% of sales, compared to 73.3% of sales in 1980, with slightly higher raw material cost offset by lower manufacturing expense and improved labor cost.

Selling and administrative expenses for 1981 increased to 19.6% of sales from 18.6% of sales in 1980. Higher promotional and administrative costs in 1981 accounted for this increase.

Interest expense increased to 1.9% of sales in 1981, compared to 1.8% of sales in 1980. The increase, due to not capitalizing any of the Industrial Revenue Bond interest

SELECTED FINANCIAL DATA

(Dollars in thousands except per share data)	1981	1980(3)	1979(3)	1978	1977	1976
Net sales	$ 55,794	$ 54,524	$ 50,303	$ 42,324	$ 35,348	$ 26,7
Cost of products sold	40,556	39,967	37,146	31,326	26,581	19,9
Interest expense	1,058	978	865	283	204	1
Income taxes	1,538	1,504	1,621	1,217	966	1,0
Net earnings	1,901	1,811	1,613	1,477	1,209	1,0
Shareholders' equity	8,911	7,112	4,824	3,600	5,903	4,9
Average shares of common stock outstanding	1,193,898	1,130,369	1,096,962	1,362,157	1,401,027	1,390,6
Per common share:(1)						
Net earnings (primary)	$ 1.59	$ 1.60	$ 1.47	$ 1.08	$ .86	$.
Net earnings (fully-diluted)	1.41	1.50	1.47	1.08	.86	.
Dividends paid	.356	.312	.260	.206	.181	.1
Shareholders' equity	7.46	6.29	4.40	2.64	4.21	3.
Total assets	23,076	19,545	16,591	13,816	10,078	8,1
Long-term debt	10,216	9,477	8,144	4,852	1,609	1,5
Cash flow	2,502	2,314	1,983	1,780	1,457	1,2
Return on equity %	27	38	45	25	25	
Current ratio	3.6	4.1	2.5	1.86	2.63	3.
Debt/equity ratio	1.15/1	1.33/1	1.69/1	1.35/1	.27/1	.32

(1) Per share data is restated to reflect the effects of a 3% stock dividend in 1981, 3-for-2 stock splits in the form of 50% stock dividends to shareholders of record in 1980 and 1978 and a 43-for-1 stock split distributed in 1972.
(2) Includes extraordinary gain of $26,140 or $.02 per share.
(3) Restated to reflect adoption of the new accounting change for foreign currency translations.

OF OPERATIONS

to plant and equipment and having a full year's interest cost on the 13½% convertible subordinated notes, was minimized because short term borrowings were not required.

1980 versus 1979

Sales in 1980 increased $4,222,000, or 8.4%, over 1979 sales. Price increases accounted for the entire sales increase.

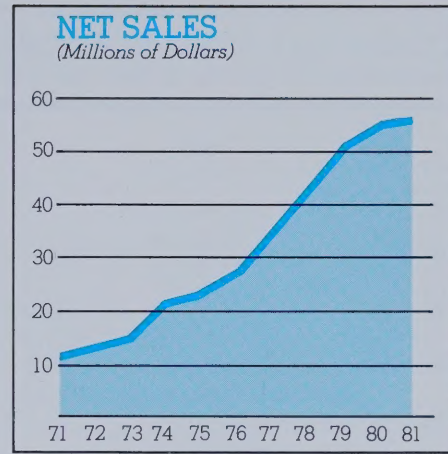
Cost of sales in 1980 decreased to 73.3% of sales, compared to 73.8% of sales in 1979, with slightly lower raw material cost offsetting the increase in manufacturing expense due to the relocation of the Cleveland plant to Twinsburg, Ohio, in 1980.

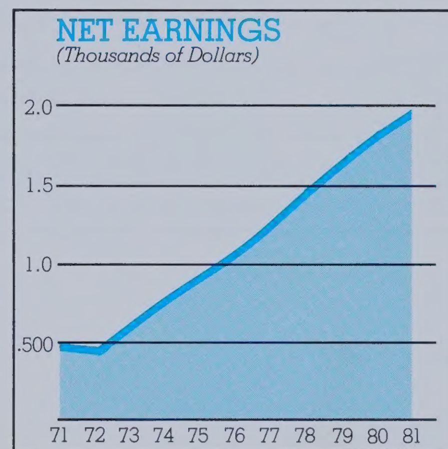
Selling and administrative expenses for 1980 increased to 18.6% of sales from 18.4% of sales in 1979. Increased promotional and administrative costs in 1980 accounted for this increase.

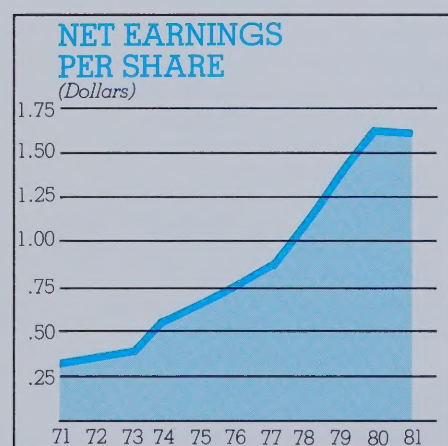
Interest expense increased to 1.8% of sales in 1980 compared to 1.7% of sales in 1979. The increase was due to higher interest rates during the first six months of 1980 and to interest for seven months on the Industrial Revenue Bond once the Twinsburg plant became operational.

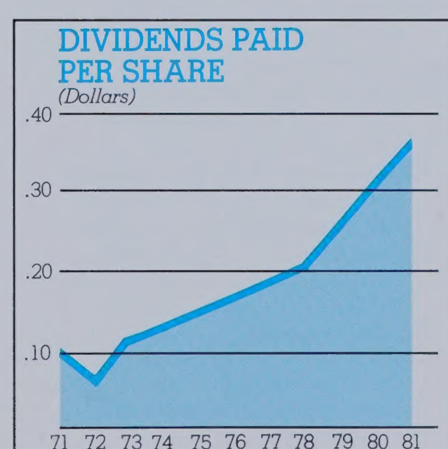
Miscellaneous expense — net increased to .2% of sales in 1980 compared to (.4%) of sales in 1979 and was due to the write-down to estimated realizable value of the Cleveland, Ohio, property and the decrease in interest income.

1975	1974	1973	1972	1971
23,829	$ 20,818	$ 15,413	$ 12,849	$ 11,100
17,852	15,770	11,307	9,374	7,919
86	107	93	99	23
863	712	513	397	403
892	777	586	464	487[2]
4,117	3,440	2,855	2,440	2,388
,390,500	1,390,500	1,390,500	1,286,622	1,513,921
.64	$ .56	$ .42	$ .36	$ .32[2]
.64	.56	.42	.36	.32[2]
.149	.129	.117	.058	.097
2.96	2.48	2.05	1.89	1.57
6,259	6,015	5,648	4,820	3,415
384	690	1,003	1,315	31
1,078	942	736	591	599
26	27	24	19	22
2.36	2.22	2.26	3.29	2.30
.09/1	.20/1	.35/1	.54/1	.01/1









CONSOLIDATED STATEMENTS OF EARNINGS

Years ended December 31, 1981, 1980 and 1979

	1981	1980	1979
Net sales	$55,793,810	54,524,490	50,302,821
Cost of sales	40,555,770	39,966,663	37,145,729
Gross profit	15,238,040	14,557,827	13,157,092
Selling and administrative expenses	10,920,512	10,142,115	9,264,148
Operating profit	4,317,528	4,415,712	3,892,944
Interest expense, net of interest capitalized in plant and equipment of $—0— in 1981, $105,229 in 1980 and $122,000 in 1979	1,058,075	978,151	865,546
Miscellaneous (income) expense, net	(179,980)	122,138	(206,977)
Earnings before income taxes	3,439,433	3,315,423	3,234,375
Income taxes (note 6)	1,538,000	1,504,023	1,620,892
Net earnings	$ 1,901,433	1,811,400	1,613,483
Net earnings per share of common stock (note 7)	$1.59	1.60	1.47
Net earnings per share of common stock — assuming full dilution (note 7)	$1.41	1.50	1.47

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended December 31, 1981, 1980 and 1979

	Total	Common stock	Additional capital	Retained earnings	Foreign currency translation adjustment	Reacquired common stock
Balance at December 31, 1978	$3,599,873	201,275	62,994	6,899,604	—	(3,564,000)
Adjustment as of January 1, 1978 to adopt FAS 52 (note 9)	(46,557)	—	—	—	(46,557)	—
Net earnings	1,613,483	—	—	1,613,483	—	—
Cash dividends declared ($.27 per share)	(294,653)	—	—	(294,653)	—	—
Foreign currency translation adjustment	(47,849)	—	—	—	(47,849)	—
Balance at December 31, 1979	4,824,297	201,275	62,994	8,218,434	(94,406)	(3,564,000)
Payment in lieu of issuing fractional shares resulting from stock split	(1,256)	—	—	(1,256)	—	—
Contribution of 26,253 shares of reacquired common stock to employee profit sharing plan	297,360	—	(8,496)	—	—	305,856
Sale of 44,805 shares of reacquired common stock	580,290	—	58,290	—	—	522,000
Shares issued (1,159 shares) in connection with employee stock option plan	5,190	166	5,024	—	—	—
Net earnings	1,811,400	—	—	1,811,400	—	—
Cash dividends declared ($.32 per share)	(371,605)	—	—	(371,605)	—	—
Foreign currency translation adjustment	(33,558)	—	—	—	(33,558)	—
Balance at December 31, 1980	7,112,118	201,441	117,812	9,656,973	(127,964)	(2,736,144)
Payment in lieu of issuing fractional shares resulting from stock split	(3,131)	—	—	(3,131)	—	—
Contribution of 25,544 shares of reacquired common stock to employee profit sharing plan	310,004	—	12,400	—	—	297,604
Shares issued (4,635 shares) in connection with employee stock option plan	20,746	670	20,076	—	—	—
Net earnings	1,901,433	—	—	1,901,433	—	—
Cash dividends declared ($.36 per share)	(437,289)	—	—	(437,289)	—	—
Foreign currency translation adjustment	7,561	—	—	—	7,561	—
Balance at December 31, 1981	$8,911,442	202,111	150,288	11,117,986	(120,403)	(2,438,540)

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS
December 31, 1981 and 1980

Assets	1981	1980
Current assets:		
Cash	$ 2,744,820	1,851,112
Receivables, less allowance of $68,961 in 1981 and $64,093 in 1980	3,876,011	3,463,100
Inventories (note 2)	6,098,789	5,629,442
Other current assets	214,087	185,390
Total current assets	12,933,707	11,129,044
Other assets	648,307	627,801
Property, plant and equipment, at cost (note 3):		
Land	655,586	651,386
Buildings and leasehold improvements	4,748,865	4,390,433
Machinery and equipment	6,365,687	4,511,441
Office equipment and fixtures	372,718	290,878
	12,142,856	9,844,138
Less accumulated depreciation and amortization	2,648,976	2,055,994
Net property, plant and equipment	9,493,880	7,788,144
	$23,075,894	19,544,989

Liabilities and Shareholders' Equity	1981	1980
Current liabilities:		
Long-term debt, due within one year	$ 308,880	112,280
Accounts payable	1,668,244	1,047,690
Dividends payable	113,904	102,153
Taxes withheld from employees	48,479	31,682
Accrued interest	420,363	427,974
Accrued profit sharing	175,000	310,000
Accrued expenses	431,232	352,203
Accrued income taxes	460,539	315,800
Total current liabilities	3,626,641	2,699,782
Long-term debt, due after one year (note 3)	10,216,221	9,477,200
Deferred income taxes (note 6)	321,590	255,889
Shareholders' equity (notes 3, 5, 7 and 9):		
Common stock without par value. Authorized 3,000,000 shares; issued 1,408,295 shares in 1981 and 1,403,660 shares in 1980 at stated value of $.14 per share	202,111	201,441
Additional capital	150,288	117,812
Retained earnings	11,117,986	9,656,973
Foreign currency translation adjustment	(120,403)	(127,964)
	11,349,982	9,848,262
Less cost of reacquired common stock (209,308 shares in 1981 and 234,852 in 1980)	2,438,540	2,736,144
Total shareholders' equity	8,911,442	7,112,118
	$23,075,894	19,544,989

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years ended December 31, 1981, 1980 and 1979

	1981	1980	1979
Sources of working capital:			
Net earnings	$1,901,433	1,811,400	1,613,483
Items which do not use working capital:			
Depreciation and amortization	600,836	502,693	369,504
Deferred income taxes	65,701	83,275	67,298
Total working capital provided by operations	2,567,970	2,397,368	2,050,285
Proceeds from long-term borrowings	1,047,901	6,000,000	3,450,000
Proceeds from sale of reacquired common stock, net	—	580,290	—
Profit sharing contribution by issuance of reacquired common stock	310,004	297,360	—
Proceeds from exercise of employee stock option	20,746	5,190	—
Foreign currency translation adjustment	7,561	—	—
	$3,954,182	9,280,208	5,500,285
Uses of working capital:			
Additions to property, plant and equipment, net	$2,306,572	662,061	4,041,125
Cash dividends declared	437,289	371,605	294,653
Current installments and repayments of long-term debt	308,880	4,667,280	157,280
Increase in other assets	20,506	175,762	395,449
Payment in lieu of issuing fractional shares	3,131	1,256	—
Foreign currency translation adjustment	—	33,558	94,406
Increase in working capital	877,804	3,368,686	517,372
	$3,954,182	9,280,208	5,500,285
Changes in components of working capital:			
Increase (decrease) in current assets:			
Cash	$ 893,708	1,559,345	(2,958,772)
Receivables	412,911	258,735	859,640
Inventories	469,347	837,243	989,843
Other current assets	28,697	(36,734)	(182,996)
	1,804,663	2,618,589	(1,292,285)
Increase (decrease) in current liabilities:			
Notes payable	—	—	(2,564,000)
Long-term debt, due within one year	196,600	(45,000)	—
Accounts payable	620,554	(487,822)	59,022
Dividends payable	11,751	20,502	10,650
Taxes withheld from employees	16,797	(239,950)	242,175
Accrued interest	(7,611)	171,919	162,289
Accrued profit sharing	(135,000)	12,500	47,356
Accrued expenses	79,029	(102,293)	89,167
Accrued income taxes	144,739	(79,953)	143,684
	926,859	(750,097)	(1,809,657)
Increase in working capital	$ 877,804	3,368,686	517,372

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1981, 1980 and 1979

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of The Gibson-Homans Company and its wholly-owned subsidiaries. All intercompany balances, transactions and profits have been eliminated.

Inventories

Inventories are valued on the basis of the lower of cost or replacement market, cost being determined generally by the first-in, first-out method.

Property, Plant and Equipment

Plant and equipment are depreciated over their estimated useful lives; leasehold improvements are amortized over the lives of the respective leases or the estimated useful lives of the leasehold improvements, whichever is less. The rates so determined are generally applied on the straight-line method.

Income Taxes

Deferred income taxes are provided in recognition of the income tax effect of timing differences in reporting transactions for financial statement and tax purposes.

Investment tax credits are accounted for using the flow-through method which reduces Federal income tax expense for the year in which qualified property is placed in service.

Retirement Plans

The Company has non-contributory retirement plans which cover qualified employees of the Company and its Canadian subsidiary. Past service costs are generally amortized over a thirty year period. The Company's policy is to accrue pension costs on a current basis.

Net Earnings Per Common Share

Net earnings per share of common stock are based on the weighted average number of shares outstanding during the respective years. Common stock equivalents have no material dilutive effect. Net earnings per share of common stock-assuming full dilution are based on the assumption that the convertible debt was converted in July, 1980. Net earnings are adjusted for the interest incurred on the convertible debt.

(2) INVENTORIES

Inventories at December 31, 1981 and 1980 consisted of the following:

December 31,	Finished goods	Raw materials	Total
1981	$3,086,631	3,012,158	6,098,789
1980	3,272,560	2,356,882	5,629,442

(3) LONG-TERM DEBT

Long-term debt at December 31, 1981 and 1980 is summarized as follows:

	1981	1980
6.20% to 7.75% industrial facility lease obligation, payable in annual installments ranging in amount from $75,000 in 1982 to $290,000 in 2004(A)	$ 3,380,000	3,450,000
13½% convertible subordinated notes, payable in ten annual installments of $600,000 beginning August 1, 1986 through August 1, 1995(B)	6,000,000	6,000,000
Unsecured promissory note(C)	1,047,901	—
7% unsecured promissory notes payable in annual installments of $24,300 through January 1, 1985	97,200	121,500
Other	—	17,980
	10,525,101	9,589,480
Less current portion	308,880	112,280
	$10,216,221	9,477,200

(A) The capitalized lease obligation relates to an industrial facility and Company headquarters financed with a $3,450,000 Industrial Development Revenue Bond. Under the terms of the loan agreement there is a limitation on cash dividends and stock repurchases. Retained earnings free from these restrictions approximated $1,806,000 as of December 31, 1981.

The obligation is secured by a security interest in the personal property and a first mortgage on the real property of the facility with depreciated costs aggregating $4,201,264.

(B) In July, 1980, the Company issued $6,000,000 of 13½% subordinated notes convertible into 463,500 shares of common stock. The proceeds were used to repay certain debt as well as for working capital. At December 31, 1981, the notes were convertible into common stock at a conversion price of $12.94 a share. Under the terms of the agreement there exist certain restrictive covenants including maintenance of working capital, limitations on additional borrowings and limitations on certain investment activities.

(C) On December 30, 1981 the Company acquired all the outstanding shares of A. Z. Bogert Co., Inc. The purchase price included the issuance of a $1,047,901 note payable in five annual installments of $209,580 commencing December 30, 1982. The note bears interest at 10% for 1982 while subsequent years' interest, being based on a formula, can vary from 9% - 12½%.

The Company had an unused line of credit of $2,500,000 at December 31, 1981 which provides for loans at the banks' prime rate and requires the maintenance of an average compensating balance of 15% of the amounts borrowed.

The aggregate principal payments on the long-term debt for the five years ending December 31, 1986 will be as follows: 1982 - $308,880; 1983 - $313,880; 1984 - $318,880; 1985 - $328,880; 1986 - $909,581.

(4) RETIREMENT PLANS

Current and past service costs charged to operations for the years ended December 31, 1981, 1980 and 1979 aggregated $452,700, $402,500 and $353,400, respectively. At the latest valuation date, January 1, 1981, the net assets available for benefits under the Company's domestic pension plan were $2,294,377 and the actuarial present value of accumulated benefits under that plan, which included $1,295,868 of vested accumulated benefits, totaled $1,468,341. The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 7½%. The Company's foreign pension plan is not required to report to certain government agencies pursuant to ERISA and does not otherwise determine the actuarial value of accumulated benefits or net assets available for benefits.

(5) STOCK OPTIONS

The Company's qualified stock option plan approved in 1972 by the shareholders was terminated on December 31, 1981. Under terms of that Plan common shares had been reserved for the granting of options to certain employees at a price not less than the fair market value at the date of grant.

During 1981 and 1980, options to purchase 5,794 shares were exercised at an option price of $4.48 per share ($25,935 in the aggregate). The market value of the shares aggregated $79,802 at the dates of exercise. At the end of 1981, there were no options outstanding.

(6) INCOME TAXES

Income taxes are comprised of the following components:

	1981	1980	1979
Federal:			
Current	**$1,284,651**	1,258,581	1,364,350
Deferred	**72,054**	75,359	83,060
	1,356,705	1,333,940	1,447,410
State	**181,295**	170,083	173,482
	$1,538,000	1,504,023	1,620,892

Total tax expense differs from the amounts computed by applying the U. S. Federal income tax rate of 46% in 1981, 1980 and 1979 to earnings before income taxes, as follows:

	1981	1980	1979
	Percentage of pretax income	Percentage of pretax income	Percentage of pretax income
Computed "expected" tax expense	**46.0%**	46.0%	46.0%
Increases (reductions) in taxes resulting from:			
State income taxes, net of Federal income tax benefit	**2.8**	2.7	2.9
(Earnings) loss of Canadian subsidiary	**(1.1)**	1.5	2.9
Investment tax credit	**(2.3)**	(4.9)	(1.1)
Other	**(.7)**	.1	(.6)
Total tax expense	**44.7%**	45.4%	50.1%

Deferred Federal income taxes result from timing differences relating primarily to depreciation and state income taxes. The Canadian subsidiary has net operating loss carryforwards of approximately $114,000 and $92,000 which expire in 1984 and 1986, respectively; and investment tax carryforwards of approximately $21,000 and $4,000 which also expire in 1984 and 1986, respectively.

(7) COMMON SHARES

In 1980, the Board of Directors declared a 3 for 2 stock split in the form of a stock dividend of one share on each two issued shares of the Company, to shareholders of record at the close of business on October 15, 1980. In 1981, the Board of Directors declared a 3% stock dividend to shareholders of record at the close of business on October 30, 1981.

All references in the financial statements to the number of common shares, price per share, and other per share amounts have been adjusted to reflect the above mentioned stock split and stock dividend.

(8) SEGMENT INFORMATION

The Company operates in only one industry, which is the manufacture and sale of protective coatings, adhesives and sealants, and accessories used for the protection and preservation of residential, commercial and industrial buildings and facilities. Sales, operating profits and identifiable assets disclosed in the accompanying consolidated financial statements relate to this line of business.

(9) TRANSLATION OF FOREIGN CURRENCIES

In 1981, the Financial Accounting Standards Board issued Statement No. 52 (FAS 52) "Foreign Currency Translation" which will replace FAS 8 "Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements" for fiscal years beginning on or after December 15, 1982. Since the FASB encouraged companies to apply the provisions of FAS 52 prior to its effective date, the Company adopted it in 1981 and elected to restate the financial statements for 1980 and 1979 to conform with the 1981 presentation. Pursuant to FAS 52, translation adjustments are recorded as a separate component of shareholders' equity whereas under the provisions of FAS 8 they are recorded as a component of net earnings.

As a result of the restatement, previously reported net earnings have decreased $73,760 ($.06 per share) and $35,311 ($.03 per share) for 1980 and 1979, respectively. Had the Company not adopted the provisions of FAS 52 in 1981, net earnings for the current year under the provisions of FAS 8 would have been $53,500 ($.04 per share) lower than those reported in the accompanying Statements of Earnings.

ACCOUNTANTS' REPORT

The Board of Directors
The Gibson-Homans Company:

We have examined the consolidated balance sheets of The Gibson-Homans Company and subsidiaries as of December 31, 1981 and 1980, and the related consolidated statements of earnings, shareholders' equity and changes in financial position for each of the years in the three year period ended December 31, 1981. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of The Gibson-Homans Company and subsidiaries at December 31, 1981 and 1980, and the results of their operations and the changes in their financial position for each of the years in the three year period ended December 31, 1981 in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, in the method of accounting for foreign currency translation as described in note 9 to the financial statements.

Cleveland, Ohio
February 18, 1982

Peat, Marwick, Mitchell & Co.

PRICE RANGE OF COMMON STOCK

Gibson-Homans common stock is traded publicly in the Over-the-Counter market. The ticker symbol is GIBH. The table below sets forth the range of high and low bid prices as reported by the National Association of Securities Dealers Automated Quotation (NASDAQ) system for each calendar quarter during the Company's 1981 and 1980 fiscal years.

	1981		1980	
	HIGH	LOW	HIGH	LOW
1st Quarter	12	11	12½	10
2nd Quarter	14	12	11¼	9¼
3rd Quarter	13½	10	16	11¼
4th Quarter	13½	10½	15¼	12

SUMMARY OF QUARTERLY DATA

	Net Sales		Net Earnings		Net Earnings Per Share		Dividends Paid Per Share	
Quarter	1981	1980	1981	1980	1981	1980	1981	1980
March 31	$12,611,000	$11,690,000	$ 62,000	$ 90,000	$.05	$.07	$.087	$.075
June 30	15,913,000	14,238,000	771,000	697,000	.65	.62	.087	.075
September 30	16,774,000	17,145,000	997,000	985,000	.83	.88	.087	.075
December 31	10,496,000	11,451,000	71,000	39,000	.06	.03	.095	.087

Per share data is restated to reflect the effect of a 3% stock dividend in 1981 and a 50% stock dividend in 1980.
1980 results are restated to reflect adoption of the new accounting change for foreign currency translations.

DIRECTORS AND OFFICERS

DIRECTORS

ERIC S. WORMSER†
Chairman of the Board

WILLIAM E. PAINTER
President

LEONARD V. SCHNEEBERGER
Senior Vice President
Secretary-Treasurer

JOHN L. DAMPEER*
Partner
Thompson, Hine and Flory, Attorneys
Cleveland, Ohio

JOHN N. EUSTIS†
Retired Vice President
National City Bank
Cleveland, Ohio
Primary lending bank of the Company

DONALD L. McKELVEY
Retired Manager of Portland Division

ALWYN J. MORGAN, JR.
Manager of Des Moines, Iowa Division

WILBER C. NORDSTROM*†
Executive Vice President
The Standard Products Company,
Transportation Equipment
Cleveland, Ohio

WILBUR F. SCHMITT*
Retired Chairman of the Board
The Gibson-Homans Company

* Audit Committee
† Compensation Committee

OFFICERS

ERIC S. WORMSER
Chairman of the Board

WILLIAM E. PAINTER
President

LEONARD V. SCHNEEBERGER
Senior Vice President,
Secretary-Treasurer

EDWIN J. HULL
Vice President, Marketing

KENNETH P. KAISER
Vice President, Technical Sales

WILLIAM P. RAY
Vice President, Trade Sales

GENERAL OFFICES

1755 Enterprise Parkway
Twinsburg, Ohio 44087
216/425-3255

MANUFACTURING PLANTS

Twinsburg, (Cleveland) Ohio
Matawan, (Newark) New Jersey
Baltimore, Maryland
Conyers, (Atlanta) Georgia
Des Moines, Iowa
Kansas City, Missouri
Tampa, Florida
Gretna, (New Orleans) Louisiana
Ennis, (Dallas) Texas
Vernon, (Los Angeles) California
Richmond, (San Francisco) California
Portland, Oregon
Mississauga, (Toronto) Ontario
Boucherville, (Montreal) Quebec

REGISTRAR AND TRANSFER AGENT

National City Bank, Cleveland, Ohio

AUDITORS

Peat, Marwick, Mitchell & Co.
Cleveland, Ohio

COUNSEL

Thompson, Hine and Flory
Cleveland, Ohio

FORM 10-K

A copy of the Company's Annual Report on Form 10-K as submitted to the Securities and Exchange Commission is available without charge to shareholders upon written request. Please address requests to: Leonard V. Schneeberger, Senior Vice President, Secretary-Treasurer, The Gibson-Homans Company, 1755 Enterprise Parkway, Twinsburg, Ohio 44087.

ANNUAL MEETING

April 24, 1982, 10:00 am EST
The Gibson-Homans Company
1755 Enterprise Parkway
Twinsburg, Ohio 44087

SINCE gh 1913

the GIBSON-HOMANS company

Headquarters · 1755 Enterprise Parkway · Twinsburg, Ohio 44087 · 216/425-3255

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